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San Diego, CA's Bond Ratings Reinstated Following Receipt Of Audited Financial Statements

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NEW YORK (Standard & Poor's) May 15, 2008-- Standard & Poor's Ratings Services today reinstated its 'A' underlying rating (SPUR) and positive outlook on San Diego, Calif.'s general obligation (GO) debt, and its 'A' SPUR and positive outlook on the city's lease revenue bonds and certificates of participation (COPs).

At the same time, Standard & Poor's reinstated its 'AA-' SPUR on the city's water utility revenue bonds and its 'A+' SPUR on the city's subordinate water utility revenue bonds. Finally, Standard & Poor's reinstated its 'A+' SPUR on the city's wastewater utility revenue debt.

Standard & Poor's received a request from the city of San Diego to reinstate its ratings on the city's GO, lease revenue bond and COP, water utility revenue, and wastewater utility revenue debt. The reinstatements follow our receipt of the city's fiscal 2003, fiscal 2004, fiscal 2005, and fiscal 2006 audited financial statements.

"The positive outlook on the general obligation bonds, lease revenue bonds, and certificates of participation reflects recent improvements in management practices that have begun to address the city's long-term financial challenges, and the expectation that the city's fiscal 2007 and 2008 audited financial statements will be released in the next two to seven months," said Standard & Poor's credit analyst Sussan Corson. "Should management continue to

make necessary budgetary adjustments to offset projected budgetary gaps and target structural balance and financial stability, the rating could be raised into the next category."

The ratings on the city's water utility bonds reflect good historical and projected financial performance, strong cash reserves bolstered by targeted cash reserve policies, council-approved system rate increases through fiscal 2011, and a stable and diverse service area economy and customer base. Offsetting credit concerns include the system's significant capital improvement plan driven by regulatory concerns, with considerable financing plans over the next five years; required annual approvals for customer water charge increases related to passed-through water purchase costs; and senior-lien legal provisions that allow net system revenue calculations to include transfers from the rate stabilization fund and secondary purchase funds.

The rating on the city's wastewater debt reflects good historical and projected debt service coverage; a strong liquidity position supported by targeted cash reserve policies; council-approved system rate increases through May 1, 2010; and a regional and municipal system serving a broad and diverse service area economy and customer base. These strengths are offset by the wastewater system's ongoing sewage treatment regulatory challenges, related primarily to a consent decree and secondary treatment requirements at the Metropolitan Sewerage System's Point Loma Plant, which have the potential to cause significant increases in the capital improvement plan; higher-than-average rates when compared with regional systems across the country; and legal provisions that allow net system revenue calculations to include transfers from the rate stabilization fund.

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